



FOX, GARCIA & Co, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Desert Palms Apartments Limited Partnership

Independent Auditor's Report

and Financial Statements

For the Years Ended

December 31, 2017 and 2016

Supplementary Information

For the Year Ended

December 31, 2017

Desert Palms Apartments Limited Partnership

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FOX, GARCIA & Co. LLC
CERTIFIED PUBLIC ACCOUNTANTS

Diane R. Fox, CPA
Shelleyn D. Garcia, CPA
Ph: 214-842-8464

INDEPENDENT AUDITOR'S REPORT

To the Partners of

Desert Palms Apartments Limited Partnership
Las Cruces, New Mexico
and
Wayne Johnson, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Desert Palms Apartments Limited Partnership, which comprise the balance sheets, as of December 31, 2017 and 2016, and the related statements of operations, changes in partners' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Desert Palms Apartments Limited Partnership as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Desert Palms Apartments Limited Partnership as of December 31, 2016, were audited by other auditors whose report dated May 26, 2017, expressed an unmodified opinion on those statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 19 - 20 is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information shown on pages 19 - 20 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information shown on pages 19 - 20 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The *Schedule of Vendors* shown on page 21 has not been subjected to the the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2018, on our consideration of Desert Palms Apartments Limited Partnership's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Desert Palms Apartments Limited Partnership's internal control over financial reporting and compliance.



Fox, Garcia & Company, LLC

May 18, 2018
Big Spring, Texas

Desert Palms Apartments Limited Partnership

Balance Sheets

December 31, 2017 and 2016

ASSETS

	<u>12/31/2017</u>	<u>12/31/2016</u>
Current Assets:		
Cash and Cash Equivalents	\$ 3,334	\$ 97,690
Accounts Receivable - Tenants	4,609	1,722
Prepaid Expenses	12,087	12,379
Total Current Assets	<u>20,030</u>	<u>111,791</u>
Restricted Deposits & Funded Reserves:		
Tenant Security Deposits	32,717	37,196
Real Estate Tax & Insurance	8,805	6,134
Other Escrows	1,939	2,002
Replacement Reserve	90,532	136,080
Total Restricted Deposits & Funded Reserves	<u>133,993</u>	<u>181,412</u>
Property & Equipment:		
Land	200,000	200,000
Buildings	3,399,062	3,344,430
Site Improvements	391,752	391,752
Furnishings	515,376	515,376
Maintenance Equipment	609	609
Accumulated Depreciation	(1,831,114)	(1,694,366)
Total Property & Equipment	<u>2,675,685</u>	<u>2,757,801</u>
Other Assets:		
Deferred Tax Credit Fees	17,591	17,591
Amortization	(14,170)	(12,997)
Total Other Assets	<u>3,421</u>	<u>4,594</u>
Total Project Assets	<u>2,833,129</u>	<u>3,055,598</u>
Entity Assets:		
Operating Reserve	23,221	31,214
Operating Deficit Reserve	15,516	15,493
Total Entity Assets	<u>38,737</u>	<u>46,707</u>
Total Assets	<u>\$ 2,871,866</u>	<u>\$ 3,102,305</u>

*The accompanying notes are an integral part
of these financial statements*

Desert Palms Apartments Limited Partnership

Balance Sheets

December 31, 2017 and 2016

LIABILITIES & PARTNERS' EQUITY

	<u>12/31/2017</u>	<u>12/31/2016</u>
Liabilities:		
Current Liabilities:		
Current Maturities of Long-Term Debt	\$ 27,232	\$ 25,527
Accounts Payable	71,245	50,492
Accrued Interest	8,529	8,650
Accrued Expenses	20,160	19,857
Accrued Property Taxes	7,179	7,064
Deferred Construction in Progress	0	82,190
Total Current Liabilities	<u>134,345</u>	<u>193,780</u>
Deposits & Prepaid Liabilities:		
Tenant Security Deposits	32,180	36,052
Prepaid Tenant Fees	2,746	4,923
Total Deposits & Prepaid Liabilities	<u>34,926</u>	<u>40,975</u>
Long-Term Liabilities:		
Long-Term Debt (net of current maturities)	1,774,538	1,800,082
Long-Term Accrued Interest	181,675	161,670
Deferred Development Fees	193,939	193,939
Asset Management Fee / Return to Owner	59,346	53,472
Total Long-Term Liabilities	<u>2,209,498</u>	<u>2,209,163</u>
Total Liabilities	<u>2,378,769</u>	<u>2,443,918</u>
Partners' Equity (Deficit)	<u>493,097</u>	<u>658,387</u>
Total Liabilities & Partners' Equity	<u>\$ 2,871,866</u>	<u>\$ 3,102,305</u>

*The accompanying notes are an integral part
of these financial statements*

Desert Palms Apartments Limited Partnership
Statements of Operations
For the Years Ended December 31, 2017 and 2016

	12/31/2017	12/31/2016
Rental Income:		
Potential Rental Income	\$ 484,560	\$ 482,600
Lease Excess	17,578	21,241
Less: Vacancies	(53,169)	(22,266)
Less: Concessions	(19,880)	(27,123)
Total Rental Income	429,089	454,452
 Other Income:		
Interest Income	172	204
Laundry & Vending	529	669
Tenant Charges	20,768	25,297
Miscellaneous Income	1,052	683
Total Other Income	22,521	26,853
Total Income	451,610	481,305
 Operating Expenses:		
Administrative	103,231	95,229
Utilities	35,859	32,564
Maintenance	131,857	111,880
Taxes & Insurance	69,117	74,162
Financial Expense	133,041	133,224
Total Cost of Operations	473,105	447,059
Net Income/(Loss) from Operations	(21,495)	34,246
 Non-Operating Income & (Expenses):		
Investor Service Fee	(5,874)	(5,703)
Depreciation Expense	(136,748)	(136,547)
Amortization Expense	(1,173)	(3,928)
Total Non-Operating Income & (Expenses)	(143,795)	(146,178)
Net Income/(Loss)	\$ (165,290)	\$ (111,932)

*The accompanying notes are an integral part
of these financial statements*

Desert Palms Apartments Limited Partnership
Statements of Changes in Partners' Equity (Deficit)
For the Years Ended December 31, 2017 and 2016

	<u>Total</u>	<u>General Partner Equity</u>	<u>Limited Partner Equity</u>
Partners' Equity (Deficit), December 31, 2015	\$ 770,319	\$ 283,811	\$ 486,508
Net Income/(Loss): 12/31/2016	(111,932)	(11)	(111,921)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2016	\$ 658,387	\$ 283,800	\$ 374,587
Net Income/(Loss): 12/31/2017	(165,290)	(17)	(165,273)
Partners' Capital Contributions	0	0	0
Partners' Distributions	<u>0</u>	<u>0</u>	<u>0</u>
Partners' Equity (Deficit), December 31, 2017	<u>\$ 493,097</u>	<u>\$ 283,783</u>	<u>\$ 209,314</u>

*The accompanying notes are an integral part
of these financial statements*

Desert Palms Apartments Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2017	12/31/2016
Cash Flows From Operating Activities:		
Revenue:		
Rental Receipts	\$ 424,025	\$ 463,202
Other Income	22,521	26,853
Total Receipts	446,546	490,055
Expenses:		
Administrative	(73,954)	(68,214)
Management Fees	(16,681)	(33,763)
Utilities	(36,158)	(30,462)
Maintenance	(122,805)	(120,734)
Taxes & Insurance	(69,002)	(74,205)
Financial Expense	(131,474)	(132,024)
Tenant Security Deposits	607	(809)
Total Disbursements	(449,467)	(460,211)
Net Cash from Operating Activities:	(2,921)	29,844
Cash Flows From Investing Activities:		
Purchase Property & Equipment	(54,632)	(7,646)
Replacement Reserve	45,548	(22,526)
Real Estate Tax & Insurance	(2,672)	934
Other Escrows	63	52
Operating Reserve	7,993	8,673
Operating Deficit Reserve	(23)	(21)
Deferred Construction in Progress	(82,190)	82,190
Net Cash from Investing Activities:	(85,913)	61,656
Cash Flows From Financing Activities:		
Principal Payments on Mortgage	(25,527)	(23,930)
Long-Term Accrued Interest	20,005	19,247
Net Cash from Financing Activities:	(5,522)	(4,683)
Increase (Decrease) In Cash	(94,356)	86,817
Cash at Beginning of Period	97,690	10,873
Cash at End of Period	\$ 3,334	\$ 97,690

*The accompanying notes are an integral part
of these financial statements*

Desert Palms Apartments Limited Partnership
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
Increase (Decrease) in Cash and Cash Equivalents

	12/31/2017	12/31/2016
Reconciliation of Net Profit (Loss) to Net Cash Provided by Operating Activities:		
Net Income (Loss)	\$ (165,290)	\$ (111,932)
Adjustments to Reconcile Net Profit (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	136,748	136,547
Amortization Expense	1,173	3,928
Non-Cash Interest for Debt Issuance Costs	1,688	1,313
(Increase) Decrease In Assets		
Accounts Receivable - Tenants	(2,887)	6,925
Prepaid Expenses	292	(970)
Tenant Security Deposits	4,479	(1,070)
Increase (Decrease) In Liabilities		
Accounts Payable	20,754	(12,408)
Accrued Interest	(121)	(113)
Accrued Expenses	303	(122)
Accrued Property Taxes	115	(43)
Tenant Security Deposits	(3,872)	261
Prepaid Tenant Fees	(2,177)	1,825
Asset Management Fee / Return to Owner	5,874	5,703
Net Cash from Operating Activities	\$ (2,921)	\$ 29,844
 <u>Supplemental Disclosures:</u>		
Interest Paid	\$ 102,860	\$ 104,267

*The accompanying notes are an integral part
of these financial statements*

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE A - ORGANIZATION

Desert Palms Apartments Limited Partnership was organized in 2003 as a Limited Partnership to develop, construct, own, maintain, and operate a 101-unit rental housing project for mixed income tenants with both tax credit and market rate units. The Project is located in the city of Las Cruces, New Mexico, and is currently known as Desert Palms Apartments. The major activities of the Partnership are governed by the Partnership Agreement and the Internal Revenue Code Section 42.

The management of the Partnership and the ongoing management of Desert Palms Apartments are vested in the Partners. The Partnership has hired JL Gray Company to provide day to day management for the property. Compensation for such services is as determined under the Partnership Agreement and Management Agreement.

The Project is financed and constructed under Section 542(c) of the Housing and Community Development Act, as amended, and is administered by the New Mexico Mortgage Finance Authority (MFA). Under this program, the Company provides housing to low and moderate income tenants, subject to regulation by MFA and the United States Department of Housing and Urban Development (HUD), as to rental charges and operating methods. Lower rental charges to tenants are recovered by the Project through rent subsidies provided by the local Public Housing Authority (PHA).

The Partnership is reported as a component unit of Mesilla Valley Public Housing Authority (MVPHA), previously Housing Authority of the City of Las Cruces, because MVPHA is a member of the General Partner of the Partnership. The Partnership has no component units.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

A summary of the Partnership's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

Basis of Accounting

The Partnership utilized the accrual basis of accounting, whereby income is recognized as earned and expenses are recognized as obligations are incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted short-term investments with an original maturity of three months or less, cash on deposit, money market funds and certificates of deposit.

Cash and Other Deposits

The Partnership maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts, at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Desert Palms Apartments Limited Partnership
Notes to Financial Statements
December 31, 2017 and 2016

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (continued)

Collateralization of Deposits

The Project is a component unit of the Mesilla Valley Public Housing Authority (MVPHA) and as such, is not required to secure collateralization on cash deposits.

Tenants' Security Deposits

Tenants' security deposits are held in a separate bank account. This account was funded in an amount greater than the security deposit liability as of December 31, 2017 and 2016.

Tenant Receivable and Bad Debt Policy

Tenant rent charges for the current month are due on the first of the month. The Partnership does not accrue interest on the tenant receivable balances. The Partnership has not established an allowance for doubtful accounts and does not use the reserve method for recognizing bad debts. Bad debts are treated as direct write-offs in the period management determines that collection is not probable.

Property and Equipment

Property and equipment are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Property and Equipment with a unit cost of \$5,000 or more and an estimated useful life greater than one year are capitalized and depreciated based on the straight-line method over the estimated useful lives of the assets. Property and Equipment purchases less than \$5,000 or with lives of one year or less, and maintenance and repairs which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Any resulting gains and losses are reflected in the statements of operations. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives in years using the straight-line method.

	Estimated Life
Buildings	10-40
Site Improvements	5-15
Furnishings	3-7
Maintenance Equipment	5

Desert Palms Apartments Limited Partnership
Notes to Financial Statements
December 31, 2017 and 2016

NOTE B - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

The Partnership reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the rental property including the Low Income Housing Tax Credits and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2017 or 2016.

Income Taxes

No income tax provision has been included in the financial statements since income or loss of the Project is required to be reported by the Owner. Further, income or loss of a partnership is required to be reported by the respective partners on their income tax returns.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Rental Income

Rental Income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and the tenants of the property are operating leases.

Reclassifications

Certain items in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Advertising Costs

Advertising Costs are expensed as incurred.

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE C - PARTNERS' PROFIT AND LOSS ALLOCATION AND DISTRIBUTIONS

The Partners of Desert Palms Apartments Limited Partnership and their respective profit and loss percentages are as follows as of December 31, 2017 and 2016:

General Partner:	
<i>Desert Palms Apartments LLC</i>	0.01 %
Limited Partner:	
<i>Freddie Mac Equity Plus II, ESIC</i>	<u>99.99 %</u>
Total	<u><u>100.00 %</u></u>

NOTE D - LONG-TERM DEBT

The Project is financed with a 35-year mortgage payable to New Mexico Mortgage Finance Authority in the original amount of \$1,705,000, with an interest rate of 6.48%. The mortgage is payable in monthly installments of \$10,277 through October 1, 2041. The accrued interest was \$8,075 and \$8,213 as of December 31, 2017 and 2016, respectively. Interest expensed on this loan was \$97,662 and \$99,269 as of December 31, 2017 and 2016, respectively.

<u>12/31/2017</u>	<u>12/31/2016</u>
\$ 1,495,310	\$ 1,520,837

The Project also has a mortgage payable to City of Las Cruces in the original amount of \$342,744. Interest will accrue on the outstanding principal balance of the loan at the annual rate of 4.94% compounded annually. Monthly interest only payments of 1% are to be paid for the first fifteen years. After the end of year fifteen the principal and accrued interest will become due and payable in 179 monthly installments of \$4,820. Maturity of the loan occurs at the sale, refinance, and transfer of the property or on September 2034. The short-term accrued interest was \$454 and \$437 as of December 31, 2017 and 2016, respectively. The long-term accrued interest was \$181,675 and \$161,670 as of December 31, 2017 and 2016, respectively. Interest expensed on this loan was \$25,082 and \$24,132 as of December 31, 2017 and 2016, respectively.

	342,744	342,744
Less: Unamortized Debt Issuance Costs	<u>(36,284)</u>	<u>(37,972)</u>
Total	1,801,770	1,825,609
Less: Current Portion	<u>(27,232)</u>	<u>(25,527)</u>
Long-Term Notes Payable	<u><u>\$ 1,774,538</u></u>	<u><u>\$ 1,800,082</u></u>

Desert Palms Apartments Limited Partnership
Notes to Financial Statements
December 31, 2017 and 2016

NOTE D - LONG-TERM DEBT (continued)

Aggregate maturities of the mortgage notes are approximated as follows:

	Principal	Interest
December 31, 2018	\$ 27,232	\$ 101,357
2019	29,050	99,746
2020	30,990	98,022
2021	33,059	95,667
2022	58,266	88,063
2023-2027	329,948	401,698
2028-2032	411,938	319,707
2033-2037	525,202	206,443
2038-2042	509,625	55,135
Less: Unamortized Debt Issuance Costs	(36,284)	
Total	\$ 1,919,026	\$ 1,465,838

Long-term accrued interest on the HOME loan in the amount of \$117,256 becomes principal and is amortized when principal payments begin December of 2021.

The apartment project is pledged as collateral for the mortgage. The mortgage loan is nonrecourse debt secured by deeds of trust on the related real estate.

NOTE E - RESERVE FUNDS

Replacement Reserve

In accordance with the Partnership Agreement, the Partnership shall establish a Replacement Reserve at the time of the fourth installment to fund major repairs or replacements of the Project Property. The Partnership shall make deposits into the Replacement Reserve fund of \$29,000 annually commencing with the completion of the Project. The Replacement Reserve balance was \$90,532 and \$136,080 as of December 31, 2017 and 2016, respectively.

Operating Reserve

The General Partner is required to establish and maintain an Operating Reserve on the date of the fourth capital contribution in the amount of \$75,000. The Operating Reserve balance was \$23,221 and \$31,214 as of December 31, 2017 and 2016, respectively. The Partnership was also required to establish a separate Operating Deficit Reserve with New Mexico Mortgage Finance Authority. The Operating Deficit Reserve balance was \$15,516 and \$15,493 as of December 31, 2017 and 2016, respectively.

Desert Palms Apartments Limited Partnership
Notes to Financial Statements
December 31, 2017 and 2016

NOTE F - COMMITMENTS AND CONTINGENCIES

Housing Tax Credits

As incentive for investment equity, the Partnership applied for and received an allocation certificate for Housing Tax Credits established by the Tax Reform Act of 1986. To qualify for the Tax Credits, the Partnership must meet certain requirements, including attaining a qualified basis sufficient to support the credit allocation. In addition, tenant eligibility and rental charges are restricted in accordance with Internal Revenue Code Section 42. Management has certified that each Tax Credit unit has met these qualifications to allow the credits allocated to each unit be claimed.

Compliance with these regulations must be maintained in each of the fifteen consecutive years of the compliance period. Failure to maintain compliance with occupant eligibility, unit gross rent, or to correct noncompliance within a reasonable time period could result in recapture of previously claimed Tax Credits plus interest.

Long-term Contract

The Partnership entered into a service agreement and a compensation agreement with Comcast of California XIV LLC (Comcast) on March 13, 2012. The service agreement is for a term of 15 years, and then automatically renews biannually unless either party provides at least 60 days notice not to renew at the end of the term. Per the compensation agreement, Comcast agreed to pay the Partnership a one-time fee of \$12,625 as consideration for entering into a long-term service agreement. The total fee was received by the Partnership upon execution of the agreements.

Regulatory Agreement Provisions

On February 5, 2001, the Company executed a 542 (c) Multifamily Insurance Program Regulatory Agreement with the New Mexico Mortgage Finance Authority in order to obtain the "risk-sharing" mortgage loan. The Company is required to abide by the Regulatory Agreement provisions including, but not limited to, (1) the maintenance of certain tenant income requirements, (2) limitations on surplus cash distributions, (3) Replacement Reserve requirements, and (4) compliance with Affirmative Fair Housing marketing plans.

HOME Investment Partnerships Program

In addition, the Partnership received funding from the HOME Investment Partnerships Program to assist with financing the development of the Project. Under the terms of the agreement, ten units shall be designated as floating HOME assisted units.

Desert Palms Apartments Limited Partnership

Notes to Financial Statements

December 31, 2017 and 2016

NOTE G - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Management Fee

In accordance with the Management Agreement, the Partnership has incurred Management Fee expenses for services rendered in connection with the leasing and operation of the Project. The current year management fee is equal to 6% of gross rental collections. Property Management Fees expensed were \$26,016 and \$27,615 during 2017 and 2016, respectively. The amounts included in accounts payable that are due to the Management Agent related to Management Fees were \$43,242 and \$33,907 as of December 31, 2017 and 2016, respectively.

Owner Distribution - Investor Services Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the Limited Partner an Investor Services Fee in the amount of \$4,000 beginning in 2004. The fee shall increase at a rate of 3% per year thereafter. The Investor Services Fee shall be payable from the available cash flows. Any unpaid fees may accrue for payment in subsequent years. Investor Services Fees of \$5,874 and \$5,703 were recognized during 2017 and 2016, respectively. The amounts due to the Limited Partner related to Investor Services Fees were \$59,346 and \$53,472 as of December 31, 2017 and 2016, respectively.

Owner Distribution - Partnership Administrative Fee

In accordance with the Partnership Agreement, the Partnership shall pay to the General Partner a Partnership Administrative Fee in the annual amount of \$25,000. The fee shall increase at a rate of 3% per year thereafter. The Partnership Administration Fee shall be payable from the available cash flows. Any unpaid fees may accrue for payment in subsequent years. There were no Partnership Administrative Fees accrued during 2017 and 2016.

Development Fee

The Partnership has incurred a Development Fee of \$203,230 due to JL Gray Company and the General Partner, rendered to the Partnership for overseeing the construction of the Project. This Development Fee has been capitalized into the basis of the building. As of December 31, 2017, \$9,291 of this fee has been paid. The amounts due related to Development Fees were \$193,939 and \$193,939 as of December 31, 2017 and 2016, respectively.

Laundry Lease

The Partnership leased space for the installation and operation of coin-operated laundry and vending machine equipment to JL Gray Company for fifty percent (50%) of the laundry room receipts after Gross Receipts Tax. This lease continues in effect until terminated by either party. The Partnership received laundry income of \$529 and \$669 for the years ended December 31, 2017 and 2016, respectively.

Desert Palms Apartments Limited Partnership
Notes to Financial Statements
December 31, 2017 and 2016

NOTE G - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES *(continued)*

Reimbursed Expenses

The Management Agent is reimbursed for a few expenses that are directly related to this property. Due to the nature and function of the Management Agent, some expenses are incurred for the property by the Management Agent. These reimbursements qualify as eligible project expenses and do not duplicate expenses that are included in the management fee. The amounts due to the Management Agent related to reimbursed expenses were \$646 and \$0 as of December 31, 2017 and 2016, respectively.

Operating Deficit Loans

Pursuant to the Partnership Agreement, the General Partner has guaranteed to fund all deficits through the later of Permanent Loan Closing and achievement of a Debt Service Coverage Ratio of 1:15:1 for 90 days, as defined. Subsequent to Permanent Loan Closing or achievement of the Debt Service Coverage Ratio, funding up to an additional \$275,000 of operating deficits is guaranteed. The requirement to fund additional operating deficits will terminate on the date the following occurs:

1. The Project has operated at Break-even three consecutive calendar years following the stabilization date of the Project;
2. The Project has met the required Debt Service Coverage for three years;
3. The balance in the Operating Reserve equals or exceeds the Operating Reserve amount.

The General Partner obligations shall be Guaranteed by the Guarantor (JL Gray Company) as defined in the Guaranty Agreement.

NOTE H - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Partnership's sole asset is Desert Palms Apartments. The Partnership's operations are concentrated in the multifamily real estate market. In addition, the Partnership operates in a heavily regulated environment. The operations of the Partnership are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies. Such administrative directives, rules, and regulations are subject to change by federal and state agencies. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

NOTE I - INSURANCE CLAIM/DEFERRED CONSTRUCTION IN PROGRESS

Deferred Construction in Progress on the Balance Sheet and Cash Flow Statement is related to an insurance claim filed due to hail damage. The project received insurance funds in the amount of \$82,190 in 2016 which is included in cash and cash equivalents as of December 31, 2016. During 2017, depreciation on the claim was received in the amount of \$22,683. Construction for these repairs were invoiced and paid to the contractor during 2017. Construction related to the insurance claim is complete and paid in full as of December 31, 2017.

Desert Palms Apartments Limited Partnership
Notes to Financial Statements
December 31, 2017 and 2016

NOTE J - ACCRUED EXPENSES

The accrued expenses on the balance sheet contain the following:

	<u>12/31/2017</u>	<u>12/31/2016</u>
Accrued Payroll Expenses	\$ 3,441	\$ 3,371
Accrued Audit Fees	16,000	16,000
Unclaimed Residential Property	719	486
Total Accrued Expenses	<u>\$ 20,160</u>	<u>\$ 19,857</u>

NOTE K - SUBSEQUENT EVENTS

The Project has evaluated subsequent events through May 18, 2018 which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

Desert Palms Apartments Limited Partnership
Supplemental Information
Year Ended December 31, 2017

Desert Palms Apartments Limited Partnership
Supplementary Information Required by HUD
Year Ending December 31, 2017

1. SCHEDULE OF RESERVE FOR REPLACEMENTS

Balance as of January 1, 2017	\$ 136,080
Deposits	30,000
Interest Earned on Reserve for Replacement Account (Net of Service Fees)	141
Approved Withdrawals	<u>75,689</u>
Balance as of December 31, 2017	<u><u>\$ 90,532</u></u>

2. SCHEDULE OF OPERATING & OPERATING DEFICIT RESERVE

Balance as of January 1, 2017	\$ 46,707
Deposits	0
Interest Earned on Operating Reserve Account (Net of Service Fees)	30
Approved Withdrawals	<u>8,000</u>
Balance as of December 31, 2017	<u><u>\$ 38,737</u></u>

3. SCHEDULE OF CHANGES IN FIXED ASSETS

	Balance 12/31/2016	Additions	Deductions	Balance 12/31/2017
Land	\$ 200,000	\$ 0	\$ 0	\$ 200,000
Buildings	3,344,430	54,632	0	3,399,062
Site Improvements/Building Equipment	391,752	0	0	391,752
Furnishings	515,376	0	0	515,376
Maintenance Equipment	609	0	0	609
Totals	<u>4,452,167</u>	<u>54,632</u>	<u>0</u>	<u>4,506,799</u>
Accumulated Depreciation	1,694,366	\$ 136,748	\$ 0	1,831,114
Net Book Value	<u><u>\$ 2,757,801</u></u>			<u><u>\$ 2,675,685</u></u>

Schedule of Additions to Fixed Assets:

	12/31/2017
Exterior Painting & Siding	<u>54,632</u>
Totals:	<u><u>\$ 54,632</u></u>

Desert Palms Apartments Limited Partnership
Computation of Surplus Cash and Distributions
Year Ending December 31, 2017

		<u>12/31/2017</u>
Cash:		
	Cash	\$ 36,051
	Total Cash	<u>36,051</u>
Current Obligations:		
	Accrued Mortgage Interest Payable	8,529
	Accounts Payable - 30 Days	71,245
	Accrued Expenses (not escrowed)	20,160
	Prepaid Revenue	2,746
	Tenant Security Deposits Liability	32,180
	Total Current Obligations	<u>134,860</u>
	Surplus Cash (Deficiency)	<u>(98,809)</u>
Amount Available for Distribution During Next Fiscal Period:		
	Surplus Cash	<u>\$ 0</u>

Desert Palms Apartments Limited Partnership

Schedule of Vendors

Year Ending December 31, 2017

<u>Agency Number</u>	<u>Agency Name</u>	<u>Agency Type</u>	<u>RFB#/RFP#</u>
9010-F	Desert Palms Apartments Limited Partnership	Other Agencies	None



FOX, GARCIA & Co. LLC
CERTIFIED PUBLIC ACCOUNTANTS

Diane R. Fox, CPA
Shelley D. Garcia, CPA
Ph: 214-842-8464

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Partners of
Desert Palms Apartments Limited Partnership
Las Cruces, New Mexico
and
Wayne Johnson, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Desert Palms Apartments Limited Partnership which comprise the balance sheet as of December 31, 2017, and related statements of operations, changes in partners' equity (deficit), and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Desert Palms Apartments Limited Partnership's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Desert Palms Apartments Limited Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of Desert Palms Apartments Limited Partnership's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Desert Palms Apartments Limited Partnership's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Fox, Garcia & Company".

Fox, Garcia & Company, LLC

May 18, 2018
Big Spring, Texas



FOX, GARCIA & Co. LLC
CERTIFIED PUBLIC ACCOUNTANTS

Diane R. Fox, CPA
Shelleyn D. Garcia, CPA
Ph: 214-842-8464

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR HUD PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD PROGRAMS*

To the Partners of
Desert Palms Apartments Limited Partnership
Las Cruces, New Mexico
and
Wayne Johnson, New Mexico State Auditor

Report on Compliance for Each Major HUD Program

We have audited Desert Palms Apartments Limited Partnership's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) that could have direct and material effect on each of Desert Palms Apartments Limited Partnership's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 2017. Desert Palms Apartments Limited Partnership's major HUD program is a HUD insured mortgage.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD program(s).

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Desert Palms Apartments Limited Partnership's major HUD programs based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD program occurred. An audit includes examining, on a test basis, evidence about Desert Palms Apartments Limited Partnership's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. However, our audit does not provide a legal determination of Desert Palms Apartments Limited Partnership's compliance.

Opinion on Each Major HUD Program

In our opinion, Desert Palms Apartments Limited Partnership complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of Desert Palms Apartments Limited Partnership is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Desert Palms Apartments Limited Partnership's internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major HUD program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Desert Palms Apartments Limited Partnership's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a HUD program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.



Fox, Garcia & Company, LLC

May 18, 2018
Big Spring, Texas

Desert Palms Apartments Limited Partnership
Schedule of Findings and Responses
December 31, 2017

Current Year Audit Findings: December 31, 2017

Our audit disclosed no findings that are required to be reported.

Desert Palms Apartments Limited Partnership
Schedule of the Status of Prior Audit Findings,
Questioned Costs, and Recommendations
December 31, 2017

Prior Year Audit Findings: December 31, 2016

Our audit disclosed no findings that are required to be reported.

Desert Palms Apartments Limited Partnership

Mortgagor's Certification

December 31, 2017

We hereby certify that we have examined the accompanying financial statements and supplemental data of Desert Palms Apartments Limited Partnership as of December 31, 2017, and to the best of our knowledge and belief, the same are complete and accurate.

Signatories:

Signed:  Date: 5/23/18

Name: Juan Olvera

Title: Executive Director
Mesilla Valley Public Housing Authority

Auditee Information:

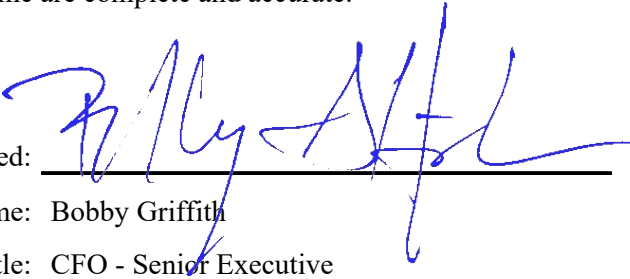
505-325-6515
May 18, 2018
Desert Palms Apartments Limited Partnership
2405 W. Picacho
Las Cruces, New Mexico 88001

Desert Palms Apartments Limited Partnership

Management Agent's Certification

December 31, 2017

We hereby certify that we have examined the accompanying financial statements and supplemental data of Desert Palms Apartments Limited Partnership as of December 31, 2017, and to the best of our knowledge and belief, the same are complete and accurate.

Signed:  _____ Date: _____
Name: Bobby Griffith
Title: CFO - Senior Executive

Management Company: JL Gray Company

Address: 1816 East Mojave St.
Farmington, NM 87401

Desert Palms Apartments Limited Partnership

Information on Auditor

December 31, 2017

Auditor's Transmittal Letter

Audit Firm: Fox, Garcia & Company, LLC
State of New Mexico License No. 00557

Lead Auditor: Diane Fox
Certified Public Accountant

Audit Firm Address: P.O. Box 3538
Big Spring, Texas 79721
214-842-8464

Auditor's Report Date: May 18, 2018

Contacts: diane@foxgarcia.com
fgco@foxgarcia.com

Desert Palms Apartments Limited Partnership

Exit Conference

December 31, 2017

EXIT CONFERENCE

An exit conference was held on May 18, 2018, which was attended by the following:

Housing Authority Administration

Juan Olvera	Executive Director
Elizabeth Garcia	Comptroller

Fox, Garcia & Company, LLC

Diane Fox	Owner/Engagement Partner
Shelley Garcia	Owner/Engagement Manager

Management Agent

Jack Curry	Owner
Bobby Griffith	Chief Financial Officer

Preparation of Financial Statements

The financial statements presented in this report were compiled by the auditor Fox, Garcia & Company, LLC. However, the contents of the financial statements remain the responsibility of management.